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C O N F I D E N T I A L CARACAS 003686

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TAGS: ECON EFIN PGOV VE
SUBJECT: MICRO-LENDING BOOM - QUANTITY VS. QUALITY

REF: A. CARACAS 2172

¶B. CARACAS 3110
¶C. CARACAS 3536
¶D. CARACAS 3575

Classified By: ECONOMIC COUNSELOR RICHARD M. SANDERS FOR REASON 1.4 B A
ND D

SUMMARY

¶1. (C) Micro-lending has long been a neglected area in Venezuela, though it is currently getting more attention than ever. Banks have been required since November 2002 to commit at least three percent of their credit portfolio to micro-lending, but the GOV is now taking more direct role through state development bank BANDES. GOV officials cited a substantial increase in loans, stated the intention to focus on import substitution, and demonstrated more concern for getting money into the economy than the prospect of having those loans repaid. (There are allegations that the GOV micro-lending policies have more to do with building its political base than with a serious effort at poverty reduction.) The private sector had already ventured into micro-lending, not only with the minimum requirement, but one lender, BanGente, has been dedicated solely to micro-lending since 1999. BanGente has been quite successful; it remains to be seen if BANDES will be as successful, or even what terms they use to define success. END SUMMARY.

THE GOVERNMENT METHOD - SPEND IT SOON

¶2. (SBU) The Bank for Economic and Social Development (BANDES) was created in November 2000 from previously existing state-owned institutions, primarily the Venezuelan Investment Fund (FIV). The FIV had a focus on "strategc industries," in particular the basic industrie (such as mining, steel and aluminum production,hydroelectric generation) provided by state-owne conglomerate CVG (see ref A). While FIV was not particularly large,funding for BANDES has incresed dramatically over the last three years, with a current portfolio of over USD 300 million. The urrent banking law, in effect since November 200, requires that each bank commit at least 3% of is lending portfolio to "micro-businesses." BANDS has been designated as the primary institutionfor disbursement of funds from PDVSA's Social Deelopment Fund (see ref B and previous), and is par of the new Ministry of Development Finance - theMinister, Nelson Merentes, was and remains the Pesident of BANDES.

¶3. (C) BANDES Vice President of Planning Luis Quiaro and General Manager William Grillet explained to econoff on November 3 that the basis of the bank's strategy was articulated by the UN's Economic Commission for Latin America in the 1960's, endeavoring to use internal resources for overall development - as he admitted, import substitution. In addition, Quiaro opined that, as many segments of the population do not have access to banking services, it was the State's responsibility to provide it for them. The vast majority of loans are what the bank defines as micro - under 30 million bolivars (USD 15,625). However, President Chavez has apparently also ordered BANDES to place a priority on lending to "cooperatives," loosely defined groups of people, perhaps neighbors, people engaged in a common economic effort, even a church. In fact, Quiaro said that lending to cooperatives could be based on a "solidarity security" - credit based solely on this loose association - rather than a traditional form of collateral. These loans would be larger than micro loans, but would be disbursed further by the cooperative itself.

¶4. (C) BANDES is rapidly increasing its lending portfolio. The current portfolio is about 23,000 loans for a total of 600 billion bolivars (USD 313 million, 13,600 average), having grown about one-fourth of that amount each year since

¶2001. (Quiaro showed statistics that indicated the portfolios of some other smaller GOV lending entities which

have been established to provide micro-credit - such as the Woman's Bank or the Sovereign People's Bank - were shrinking as the GOV endeavored to "group" the micro-finance institutions in the new Ministry.) Its 2003 budget was approximately 650 million dollars. The bank makes its loans at as little as 10-12% annual interest (NOTE: the current average commercial bank rate is just under 19%), with up to 2-year grace periods plus the possibility of deferred interest. When asked how to define the success of the bank's lending plan, Quiaro showed statistics about job creation - both direct and indirect - as a result of the bank's lending. He also shied away from citing loan repayment as a criterion for success, instead arguing that the important concept was "accompaniment," i.e., the holistic approach of taking a person from whatever stage of life - illiterate, uneducated, needing finance - and ushering them through as many Missions (ad-hoc government social welfare schemes) and programs as necessary to achieve "independence."

PRIVATE BANKERS' VIEWS OF GOVERNMENT POLICIES

¶5. (C) Oscar Garcia Mendoza, President of private Banco Venezolano de Credito, was quite scathing about GOV micro-credit programs. He suggested that, given the apparent lack of interest in repayment, they can hardly be considered banking at all. Criteria for issuing loans, he asserted, were quite political, and that the loans were, as is the case with GOV "missions" in education and housing, they became largely vehicles for regarding their supporters. This was especially so in rural areas. Another banker told econcouns the minimum 3% requirement for micro-lending by private commercial banks are often ignored, or applied rather elastically. He stated that it was easy enough for a bank to break out part of a larger loan to an existing client, make it a separate transaction, and qualify it as a micro-loan.

THE PRIVATE SECTOR PLAN - SPEND IT SMART

¶6. (SBU) Apart from the 3% of portfolio required of commercial banks, there has been little effort in the private sector to support microlending. There is only one bank in Venezuela fully dedicated to it - BanGente (Bank of the People), which currently has fifteen branches in five cities. The bank was founded in 1997 (the Inter-American Development Bank provided 10% of its financing) and issued its first loan in early 1999. It has been quite successful, with 10,000 clients and profits at 70% of expenses. President Juan Uslar says the primary reason for the bank's success is its presence in the poorest neighborhoods ("barrios") and its method of basing creditworthiness not on documents, but on visits to the business and interviews of neighbors and others who know the business owners. Uslar also said that, as BanGente's entire portfolio was micro-loans, commercial banks could provide funds and be able to count them towards the 3% micro-lending minimum.

¶7. (SBU) Operations are simple - a loan officer will go to the business and put the necessary information into a PDA, which is downloaded into a computer for quick decisions. If a loan is approved, the initial terms are usually three months at 5% per month (80% annually). Uslar said that loan sharks, who are the traditional source of finance for these businesses, charge between 10 and 20% per month. Good payment history may make the customer eligible for larger loans at lower rates. The current arrears ratio is a mere 1.35%, and the average loan size is about 1.5 million bolivars ($800). BanGente also offers savings and time deposits, but sub-contracts all cash transactions to a large commercial bank. Uslar says that, on BanGente's scale, this saves money, but also reduces the risk of crime, allowing it to operate in the areas it serves. He noted that the limiting factor for the bank to grow faster was having to train new loan officers, as micro-credit was not established as in other countries in the region.

¶8. (C) When asked about competition with the GOV,

particularly BANDES, Uslar commented that there was so much need for micro-finance, there was no competition. He then added that some of BanGente's clients have left to seek loans from BANDES, but then returned some months later citing an inability to get funds.

COMMENT

¶9. (C) The lending philosophies of BANDES and BanGente are clearly opposed: BANDES believes in quantity, while BanGente

goes for quality. The "holistic" approach indicates that BANDES does not place high priority on loan repayment. We share the strong suspicion of our private sector contacts that the spending, disguised as loans, is just another way for the GOV to get money into the economy as quickly as possible (see ref D), seeking to force up growth and build political support without concern for sustainability.
Brownfield

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